



1023 15<sup>th</sup> Street, N.W.  
Suite 200  
Washington, DC 20005  
Phone: 202-289-2663  
Fax: 202-289-7836

November 2, 1998

**The Honorable Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M Street NW  
Washington, DC 20054**

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

**Re: Schools and Libraries Fund  
Program Size Projections for First Quarter 1999  
and Expenses for Second Quarter 1998  
CC Docket Nos. 96-45, 97-21**

**Dear Secretary Salas:**

In accordance with 47 C.F.R. § 54.709(a)(3), enclosed are the original and four (4) copies of the First Quarter 1999 Program Size Projections for the Schools and Libraries Universal Service Fund. This filing includes the Second Quarter 1998 Actual Expenses of the program.

Acknowledgment of this letter is requested, and pursuant thereto, an additional copy is enclosed for this purpose.

**Respectfully submitted,**

**Kate L. Moore  
Acting Chief Executive Officer**

**Enclosure**

**Board of Directors**

Kathleen "K. G." Ouye  
Chair  
Schools & Libraries Corporation  
City Librarian  
San Mateo Public Library

Henry R. Marockie, Ed.D.  
Vice Chair  
Schools & Libraries Corporation  
Council of Chief State School Officers  
State Superintendent of Schools  
West Virginia Department of Education

Anne L. Bryant  
Executive Director  
National Schools Boards  
Association  
(NSBA)

Frank J. Gumper  
Vice President  
Long Range Public Policy  
Bell Atlantic

Brian L. Talbott, Ph.D.  
Regional Director  
American Association of  
Educational Service Agencies  
Superintendent Educational Service District 101

Before the  
**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, DC 20554

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**Schools and Libraries Fund**  
**Program Size Projections for First Quarter 1999**  
**and Expenses for Second Quarter 1998**  
**CC Docket Nos. 96-45, 97-21**

**I. Introduction**

The Schools and Libraries Corporation (SLC or Corporation) hereby submits this filing in accordance with section 54.709(a)(3) of the Federal Communications Commission's (FCC or Commission) rules.<sup>1</sup> This filing details program size projections for First Quarter 1999 for the Schools and Libraries Fund. The Corporation is also submitting as part of this filing the program expenses incurred during Second Quarter 1998 for the Schools and Libraries Universal Service Fund.

**II. Schools and Libraries Fund**

The Commission's May 7, 1997, Universal Service Order<sup>2</sup> outlined a plan to ensure that all eligible schools, libraries, and rural health care providers have affordable connections to the global telecommunications network. The plan created a fund to provide telecommunications services and to wire schools and libraries for access to the

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<sup>1</sup> 47 C.F.R. § 54.709(a)(3).

<sup>2</sup> Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Third Report and Order*, 62 Fed. Reg. 56118 (October 29, 1997).

Internet. Pursuant to the Commission's rules,<sup>3</sup> the first program year will extend eighteen months from January 1, 1998, through June 30, 1999. For the first program year, collections were limited to \$625 million for the period January 1, 1998, through June 30, 1998, and to \$325 million for each of the three-month periods from July 1, 1998 to September 30, 1998, from October 1, 1998, through December 31, 1998, from January 1, 1999, through March 31, 1999, and from April 1, 1999, through June 30, 1999. No more than \$1.925 billion is to be collected or committed to applicants for disbursement during the eighteen-month period from January 1, 1998, through June 30, 1999.

### **III. Estimates of SLC Expenses for First Quarter 1999**

In the First Quarter of 1999, the SLC expects to see a significant increase in expenses compared to the Fourth Quarter 1998. As the result of complying with recommendations from GAO and implementing the FCC's Fifth Order, costs which would have been incurred in 1998 have shifted to the First Quarter 1999. Contract costs in the First Quarter 1999 will cover activities related to *two* program years. One major factor in this expected increase is Client Service Bureau operations to support applications for the second program year -- both Forms 470 and 471 on-line -- as well as post-commitment forms from the first program year. We estimate that in the second program year, over 40,000 Forms 470 will be filed, and that 50,000 Forms 471 will be filed within the window period, an increase of about 20,000 forms as the SLC reaches a broader base of applicants. We expect to process 270,000 post-commitment forms during 1999, with a disproportionately high share in the first quarter. These forms

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<sup>3</sup> Federal-State Joint Board on Universal Service, CC Docket No. 96-45, *Fifth Order on Reconsideration and Fourth Report and Order in CC Docket No. 96-45*, FCC 98-120, Released June 22, 1998.

include: notifications from applicants of the commencement of services; reimbursement forms from applicants, invoices from service providers, and annual certifications from service providers, attesting to their commitment to following program rules. These FCC forms are critical to the implementation of program rules and have been approved by OMB. They have also been reviewed by SLC's independent auditors as well as by GAO auditors in the context of verifying that SLC is collecting the information necessary to provide for solid internal controls and monitoring of the program.

In addition, this budget provides for the expansion of SLC's Program Integrity Assurance (PIA) operations, reflecting the requirement for a level of scrutiny exceeding that which had been originally planned in the first year, consistent with our follow-through on GAO recommendations and the advice of our independent auditors. This staff expansion also addresses a new workload requirement in 1999: PIA review of invoices to provide for consistency between funds committed for particular entities and services and the authorization of payment of invoices to service providers for such services to such entities.

In short, the volume of work exceeds the level of the fourth quarter of 1998 and most certainly exceeds the first quarter of 1998, when, on January 30, the SLC website first opened.

We also plan to undertake an operational audit to evaluate the implementation of the internal controls designed and established in 1998. SLC regards this audit as

important follow-up to the work of PricewaterhouseCoopers and the General Accounting Office. A portion of this expense is projected to occur in the First Quarter.

While these components - deemed essential for administration of program rules - generate increased expense, the SLC is undertaking measures to generate cost-efficiencies. We have made provision to accept invoices electronically. We also are developing systems to generate electronic notifications to service providers of actions on applications where such providers are named. And, in 1999, applicants will be able to file electronically their Form 471 as well as the Form 470 application.

Based on these activities, expenses and interest income for the First Quarter 1999 are estimated as follows (amounts in millions):

1Q 1999 Expenses	\$10.0
Expenses from USAC	.2
Interest Income	<u>(5.1)</u>
Total	\$ 5.1

Details of this estimate are shown in Enclosure 1. Since disbursements from the Fund will not begin until late in the Fourth Quarter, we estimate that unused funds from 1998 will total about \$969 million. Together with estimated collections of \$325 million for the First Quarter less the First Quarter expense estimate above, \$1,289 million is estimated to be available for program disbursements in the First Quarter.

#### IV. SLC Actual Expenses for Second Quarter 1998

Actual expenses and interest income for the Second Quarter 1998 are as follows

(amounts in thousands):

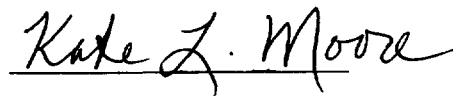
2Q 1998 Expenses	\$6,932
1998 Expenses from USAC	330
Interest Income	<u>(4,935)</u>
Total	<u><u>\$2,327</u></u>

Additional details are provided in Enclosure 2. At the end of January 1998, we had estimated 2Q expenses at \$4.16 million and USAC expenses of \$231 thousand. SLC actual direct expenses for the second quarter were lower than our January estimate because we did not reach the staffing level we then assumed. Non-recurring start-up costs, however, increased above our estimates by about \$1.7 million because of higher costs for system development and for the independent audit of our program controls undertaken at the direction of the FCC. The ongoing operating costs of our major contractor, the National Exchange Carrier Association, and its subcontractors have risen by nearly \$1.2 million over our estimates because of costs to provide client service and for our program integrity assurance unit to help protect against waste, fraud, and abuse. Because of an increase in interest earned over our January estimate, there is a net increase in funds available for commitments to applicants from the Second Quarter of \$268 thousand compared to our January estimate.

**VI. Next Filing**

Pursuant to the Commission's rules, the next filing will be on or before  
January 29, 1999.

Respectfully submitted,

A handwritten signature in cursive script that reads "Kate L. Moore". The signature is written in dark ink and is positioned above a horizontal line.

Kate L. Moore  
Acting Chief Executive Officer  
Schools and Libraries Corporation  
1023 15<sup>th</sup> Street, NW, Suite 200  
Washington, DC 20005

November 2, 1998

**Schools and Libraries Corporation  
First Quarter 1999 Budget Estimate  
(Amounts in Millions)**

SLC Operating	
Labor Costs	\$ 0.4
Travel, Supplies, Other	0.3
Contingency	<u>0.1</u>
Total	\$ 0.8

Non-Recurring (Outside Contractors)	\$ 1.3
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NECA Contract – Operations Component	<u>\$ 7.9</u>
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SLC Expenses	\$ 10.0
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Expenses from USAC	0.2
SLC Interest Income	<u>(5.1)</u>
Total	\$ 5.1



**Schools and Libraries Corporation  
Second Quarter 1998 Actual Expenses  
(Amounts in Thousands)**

SLC Operating	
Labor Costs	\$ 411
Travel, Supplies, Other	<u>176</u>
Total	\$ 587

Non-Recurring Start-up (Outside Contractors) \$ 2,437

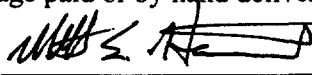
NECA Contract – Operations Component \$ 3,908

SLC Expenses \$ 6,932

Expenses from USAC	330
SLC Interest Income	<u>(4,935)</u>
Total	\$ 2,327

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing filing was served this 2nd day of November 1998, by mailing copies thereof by United States Mail, first class postage paid or by hand delivery, to the persons listed below.

By:   
Matthew E. Harcourt  
Schools and Libraries Corporation

The following parties were served:

Magalie Roman Salas\*  
Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, DC 20554  
(Original and four copies)

International Transcription Service (ITS)\*  
1231 20th Street, N.W.  
Washington, DC 20037

Chairman William E. Kennard\*  
Federal Communications Commission  
1919 M Street, N.W., Room 814  
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Federal Communications Commission  
1919 M Street, N.W., Room 826  
Washington, DC 20554 (2 copies)

Kathryn Brown, Esq.\*  
Chief, Common Carrier Bureau  
1919 M Street, N.W., Room 500  
Federal Communications Commission  
Washington, DC 20554

Sheryl Todd\*  
Common Carrier Bureau  
Federal Communications Commission  
2100 M Street, N.W., 8th Floor  
Washington, DC 20554

Lisa Boehley\*  
Common Carrier Bureau  
Federal Communications Commission  
2100 M Street, N.W., 8th floor  
Washington, DC 20554

Amy Nathan\*  
Common Carrier Bureau  
Federal Communications Commission  
1919 M Street, N.W., 5th floor Rm. 500  
Washington, DC 20554

Lisa Gelb\*  
Common Carrier Bureau  
Federal Communications Commission  
2100 M Street, N.W., 8th floor  
Washington, DC 20554

Irene Flannery\*  
Common Carrier Bureau  
Federal Communications Commission  
2100 M Street, N.W., 8th floor  
Washington, DC 20554

Julia Johnson  
Chair, Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Gerald Gunter Building  
Tallahassee, FL 32399-0850

\* - Hand delivered